TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 1708 – HB 1679

April 7, 2014

SUMMARY OF ORIGINAL BILL: Allocates a portion of the state sales tax revenue to a county or an industrial development corporation created by a county that acquires property from the state on or after January 1, 2014, if such property was used by the state as a correctional facility for more than 50 years, equal to the amount of state sales tax revenue derived from sales of all items and services taxed pursuant to the sales tax law on such property beginning with FY14-15. Requires the allocated amount to be applied to pay debt incurred by the county or industrial development corporation to facilitate the development of such property. Exempts any sales tax revenue derived from the tax increases from 5.5 percent to 6.0 percent, effective April 1, 1992, and from 6.0 percent to 7.0 percent, effective July 15, 2002, from allocation requirements under this bill.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – $60,400/FY14-15
$120,900/FY15-16
$181,300/FY16-17
$241,800/FY17-18
$307,300/FY18-19 and Subsequent Years

Increase Local Revenue – $60,400/FY14-15
$120,900/FY15-16
$181,300/FY16-17
$241,800/FY17-18
$307,300/FY18-19 and Subsequent Years

SUMMARY OF AMENDMENTS (015626, 016090, 016092): Deletes all language after the enacting clause. Allocates a portion of the state and local sales tax revenue, derived from sales taxes imposed on sales of all items and services occurring on the property, to a county or an industrial development corporation created by a county that acquires property from the state on or after January 1, 2014, if such property was used by the state as a correctional facility for more than 50 years, is located in a county that had a monthly unemployment rate of at least 2 percentage points higher than the monthly unemployment rate for the state as of January 1, 2014, and the Commissioner of Finance and Administration, with approval by the Commissioner of Correction, determines that such allocation is in the best interest of the state, meaning the development of the commercial development district in which the property is located is a result of such allocation and distribution of state and local sales taxes. Such portion shall be equal to:

the amount of local option sales tax revenue not dedicated for school purposes pursuant to Tenn. Code Ann. § 67-6-712(a)(1); and the amount of state sales tax revenue derived from five percent of the state sales tax rate. Requires the allocated amount to be applied to pay debt incurred by the county or industrial development corporation to facilitate the development of such property. Requires the apportionment and distribution of such revenue to begin with FY14-15 and to continue for a period of seven years, or until the debt incurred by the county or industrial development corporation is retired, whichever is sooner. Exempts any sales tax revenue derived from the tax increases from 5.5 percent to 6.0 percent, effective April 1, 1992, and from 6.0 percent to 7.0 percent, effective July 15, 2002, from allocation requirements under this bill as amended. Establishes that this bill as amended shall apply only to property on which no sales taxes have been generated during the five-year period immediately preceding the date on which the county or industrial development corporation acquires the property.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Forgone State Revenue – $54,900/FY14-15
$109,900/FY15-16
$164,800/FY16-17
$219,800/FY17-18
$279,300/Each Year FY18-19 through FY20-21

Increase Local Revenue – $54,900/FY14-15
$109,900/FY15-16
$164,800/FY16-17
$219,800/FY17-18
$279,300/Each Year FY18-19 through FY20-21

Other Fiscal Impact – If the Commissioner of Finance and Administration, with approval by the Commissioner of Correction, determines that the special allocation of state and local taxes is in the best interest of the state, there will be a transfer of local option sales tax funds to the county or industrial development corporation to be used for repayment of debt incurred by such county or industrial development corporation to facilitate the development of the property. The amount of such transfer is estimated to be: $11,500 in FY14-15, $23,000 in FY15-16, $34,600 in FY16-17, $46,100 in FY17-18, and $58,600 in each year FY18-19 through FY20-21.

To the extent that the Commissioner of Finance and Administration determines that the special allocation of state and local taxes is not in the best interest of the state, this bill as amended will not result in a significant fiscal impact to the state or local government.

Assumptions for the bill as amended:

- According to the Department of Correction's website, there are two decommissioned correctional facilities in Tennessee that operated for more than 50 years.
- Development plans are being made under current law for one of the decommissioned prisons to bring a distillery, campground, bed and breakfast, and other attractions to the site. Based on information provided by the Department of Revenue, it is estimated that such development will create 122 new jobs at the site and 385 new jobs in the county, for a total of 507 new jobs within five years. This analysis assumes a total of 500 new jobs will be created within five years, of which 122 jobs will be direct new jobs at the development site.
- It is further estimated that such development will create $8,000,000 in payroll for the 500 new jobs created, for an average payroll per new job of $16,000 ($8,000,000 / 500).
- In FY13-14, no new jobs will be created; in FY14-15, 24 new direct jobs will be created with $384,000 in payroll ($16,000 x 24); in FY15-16, 48 new direct jobs will be created with $768,000 in payroll ($16,000 x 48); in FY16-17, 72 new direct jobs will be created with $1,152,000 in payroll ($16,000 x 72); in FY17-18, 96 new direct jobs will be created with $1,536,000 in payroll ($16,000 x 96); and in FY18-19 and subsequent years, 122 new direct jobs will be created with $1,952,000 in payroll ($16,000 x 122).
- Payroll costs for the proposed industries will be 30 percent of gross revenue. Ninety percent of such gross revenue will be subject to the state and local sales tax.
- Gross revenue subject to the state and local sales tax is estimated to be: $1,152,000 [($384,000 / 30%) x 90%] in FY14-15; $2,304,000 [($768,000 / 30%) x 90%] in FY15-16; $3,456,000 [($1,152,000 / 30%) x 90%] in FY16-17; $4,608,000 [($1,536,000 / 30%) x 90%] in FY17-18; and $5,856,000 ($1,952,000 / 30% x 90%) in FY18-19 and subsequent years.
- No sales tax collections derived from the tax increases from 5.5 percent to 6.0 percent, effective April 1, 1992, and from 6.0 percent to 7.0 percent, effective July 15, 2002, shall be apportioned pursuant to this bill.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- The state revenue that will be allocated to the local government, pursuant to this bill as amended, to be applied to pay debt incurred by a county or industrial development corporation to facilitate the development of the property is estimated to be:
    - $54,949 [($1,152,000 x 5.0%) – ($1,152,000 x 5.0% x 4.603%)] in FY14-15;
    - $109,897 [($2,304,000 x 5.0%) – ($2,304,000 x 5.0% x 4.603%)] in FY15-16;
    - $164,846 [($3,456,000 x 5.0%) – ($3,456,000 x 5.0% x 4.603%)] in FY16-17;
    - $219,795 [($4,608,000 x 5.0%) – ($4,608,000 x 5.0% x 4.603%)] in FY17-18;
    - $279,322 [($5,856,000 x 5.0%) – ($5,856,000 x 5.0% x 4.603%)] in each year from FY18-19 through FY20-21.
- Such allocation shall only take place if the Commissioner of Finance and Administration, with approval by the Commissioner of Correction, determines that such allocation is in the best interest of the state, meaning the development of the commercial development district in which the property is located is a result of such allocation and distribution of state and local sales taxes. As a result, any fiscal impact to the state is considered forgone revenue.

- The local option sales tax revenue is estimated to be 2.0 percent.
- Pursuant to Tenn. Code Ann. § 67-6-712(a)(1), 50 percent of local option sales tax revenue proceeds are to be expended and distributed for school purposes. Pursuant to this bill as amended, the remaining 50 percent shall be transferred to the county of industrial development corporation for repayment of debt incurred by the county or industrial development corporation to facilitate the development of the property.
- The amount of local option sales tax revenue that shall be transferred pursuant to this bill as amended is estimated to be:
  - $11,520 ($1,152,000 x 2.0% x 50.0%) in FY14-15;
  - $23,040 ($2,304,000 x 2.0% x 50.0%) in FY15-16;
  - $34,560 ($3,456,000 x 2.0% x 50.0%) in FY16-17;
  - $46,080 ($4,608,000 x 2.0% x 50.0%) in FY17-18;
  - $58,560 ($5,856,000 x 2.0% x 50.0%) in each year from FY18-19 through FY20-21.
- The second decommissioned correctional facility is located in a county whose unemployment rate is not at least two percentage points higher than the unemployment rate for the state and shall not be acquired by a county or industrial development corporation created by a county as a direct result of this bill as amended.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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